

IN THE UNITED STATES DISTRICT COURT  
FOR THE WESTERN DISTRICT OF WISCONSIN

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HO KEUNG TSE,

Plaintiff,

v.

APPLE, INC. and ASCEDIA, INC.,

Defendants.  
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OPINION and ORDER

12-cv-21-bbc

In this patent infringement action, pro se plaintiff Ho Keung Tse contends that defendant Apple, Inc. and Ascedia, Inc. are infringing his United States Patent No. 6,665,797, directed generally to techniques for protecting software. Now before the court is Apple's motion to dismiss the case for lack of subject matter jurisdiction or transfer the case to the Northern District of California. Dkt. #5. Apple contends that there is no case or controversy because the patent claims plaintiff is asserting are subject to a reexamination proceeding and are not enforceable. In the alternative, Apple contends that plaintiff's claims against it should be severed and transferred to California, where a related case is pending. Ascedia has filed an unopposed motion to join Apple's motion to dismiss or transfer, dkt. #9, which I will grant.

Also before the court is plaintiff's motion for entry of default against defendants, dkt. #15, motion for default judgment, dkt. #20, and corrected motion for leave to file an amended motion to enter default. Dkt. #25.

Plaintiff's motions for entry of default and default judgment against defendants can be denied with little discussion. Plaintiff contends that default judgment should be entered against defendants because they have not filed an answer and have no meritorious defenses to his infringement claims. However, default is appropriate only when the party against which judgment is sought "failed to plead or otherwise defend." Fed. R. Civ. P. 55(a). Additionally, entry of default is a drastic measure that courts should impose only "in extreme situations where less drastic measures have proven unavailing." Silva v. City of Madison, 69 F.3d 1368, 1377 (7th Cir. 1995). In this case, defendant Apple filed a timely motion to dismiss, which was joined by defendant Ascedia, thereby tolling the deadline by which defendants must file an answer. Thus, defendants have not "failed to plead or otherwise defend" in this case. Further, plaintiff's arguments about the merits of his infringement claims are premature. At this stage, the relevant issues are whether there is a case or controversy and whether this court is the appropriate forum to resolve the parties' disputes.

With respect to defendants' motion to dismiss, I conclude that the pending reexamination proceeding does not deprive this court of subject matter jurisdiction over plaintiff's claims. However, plaintiff has failed to state a claim for contributory infringement against defendant Ascedia, so I will dismiss that claim without prejudice. I will give plaintiff one opportunity to file an amended complaint against Ascedia. With respect to the motion to transfer, I conclude that the Northern District of California is a more appropriate venue to resolve plaintiff's claims against Apple. Thus, I am granting the motion to transfer plaintiff's claims against Apple.

From plaintiff's complaint and the parties' submissions related to defendants' motion to transfer venue, I draw the following facts for the purpose of deciding the motion.

## FACTS

### A. The Parties and Patent

Plaintiff Ho Keung Tse is the sole inventor and owner of the '797 patent and a resident of Hong Kong. The '797 patent is titled "Protection of Software Against Unauthorized Use" and consists of 22 claims.

Defendant Apple is a California corporation with headquarters in Cupertino, California, which is in the Northern District of California. Apple develops and sells iPods, iPads, iPod Touches and iPhones that contain digital rights management software to protect the products from unauthorized use. Apple also sells third party application programs, called "apps," for use on its products through its virtual "App Store." The apps use Apple's digital rights management software. Apple's products were developed primarily by Apple employees at its Cupertino headquarters. Most of Apple's potential witnesses, business records and documents relating to the research, design, development of and revenue from Apple's products are located in the Northern District of California. Apple has no corporate office or research facilities in Wisconsin.

Defendant Ascedia is a Wisconsin corporation with its headquarters in Milwaukee and an office in Verona, Wisconsin. Ascedia is one of tens of thousands of companies that develop apps for use on Apple's products. Ascedia's apps include "Madison Traffic," "Milwaukee Traffic," "Chicago Traffic" and "Gary Traffic." These apps are available on

Apple's "App Store" and are protected by Apple's digital rights management technology.

B. Plaintiff's First Lawsuit against Defendant Apple

On August 5, 2005, plaintiff filed a suit in the District of Maryland accusing five defendants, including defendant Apple, of infringing various claims, including claim 21, of the '797 patent. With respect to Apple, plaintiff accused the "digital-rights management" scheme used by Apple's iTunes Music Store of infringing the patent. In October 2006, that action was transferred to the Northern District of California. In July 2007, the defendants in that action filed an ex parte request for reexamination of the '797 patent with the United States Patent and Trademark Office and moved to stay the district court action pending the outcome of the reexamination. The court granted the motion to stay in October 2007. Ho Keung Tse v. Apple Inc., 2007 WL 2904279, \*2 (N.D. Cal. Oct. 4, 2007). On December 31, 2009, plaintiff moved to lift the stay, but the court denied his motion because the reexamination certificate had not issued yet. Ho Keung Tse v. Apple, Inc., 2010 WL 1838691 (N.D. Cal. May 5, 2010). The case remains stayed.

C. Reexamination Proceedings

During the reexamination proceedings, plaintiff amended claim 21 of the patent in response to a prior art rejection. Plaintiff also amended claims 11 and 16. In July 2009, the patent office submitted a final rejection of several claims, including claim 11 and 21, and confirmed claim 16 as amended. The Board of Patent Appeals and Interferences affirmed the rejection in part, but reversed the rejection of amended claims 11 and 21. Plaintiff

appealed the Board's ruling affirming the patent office's rejection of some; on October 5, 2011 the Court of Appeals for the Federal Circuit dismissed the appeal.

On January 26, 2012, the patent office issued an office action requesting that plaintiff make certain amendments to his claims. In particular, the patent office explained that the scope of claim 13 was "unclear" and that "an amendment is necessary for clarity." Plaintiff responded by amending claim 13. The patent office has not yet issued a reexamination certificate for any claims of the '797 patent.

#### D. Plaintiff's Suit against eBay

On December 9, 2009, plaintiff filed a suit in the Eastern District of Texas, accusing four new defendants of infringing claim 21 of the '797 patent, including eBay, Inc. The court transferred the case to the Northern District of California. On August 12, 2011, the court granted eBay's motion to stay the case pending the reexamination proceedings. Ho Keung Tse v. eBay, Inc., 2011 WL 3566437 (N.D. Cal. Aug. 12, 2011). On the same day, the court issued a sua sponte order asking plaintiff to show why his complaint should not be dismissed without prejudice to refiling after the final determination of the validity of the asserted patent and issuance of a reexamination certificate. Dkt. #134, in Ho Keung Tse v. eBay, Inc., No. 11-01812-WHA (N.D. Cal. Aug. 12, 2012). When plaintiff failed to respond, the court dismissed the case for lack of case or controversy, stating that because the '797 patent was in reexamination, "[p]laintiff's infringement allegations are not based on any existing patent claim or any patent claim that existed when the complaint was filed." Dkt. #140, in Ho Keung Tse v. eBay, Inc., No. 11-0182-WHA (N.D. Cal. Aug. 29, 2012).

## OPINION

### A. Motion to Dismiss

Plaintiff contends that the digital rights management scheme used by defendant Apple's "App Store" infringes claims 13, 16 and 21 of the '797 patent. He contends that defendant Ascedia contributes to Apple's infringement by creating apps to be sold at Apple's App Store. Defendants contend that this court lacks subject matter jurisdiction over plaintiff's claims because these claims are subject to a reexamination proceeding. They contend that until the patent office issues a final certificate of reexamination, there is no case or controversy and plaintiff cannot enforce claims 13, 16 or 21.

Defendants are correct that federal courts can exercise jurisdiction only in cases in which there is an "actual controversy." Janssen Pharmaceutica, N.V. v. Apotex, Inc., 540 F.3d 1353, 1359 (Fed. Cir. 2008). When such a controversy is lacking, dismissal is appropriate under Fed. R. Civ. P. 12(b)(1) because the district court lacks subject matter jurisdiction over the claim.

However, defendants have cited no binding authority for the proposition that a reexamination proceeding divests the court of subject matter jurisdiction over an infringement action. Defendants rely primarily on the district court's decision in plaintiff's case against eBay, in which the court concluded that plaintiff could not enforce the '797 patent until the reexamination certificate issued. Dkt. #140, in Ho Keung Tse v. eBay, Inc., No. 11-0182-WHA (N.D. Cal. Aug. 29, 2012). That court cited GAF Building Materials Corp. v. Elk Corp. of Dallas, 90 F.3d 479 (Fed. Cir. 1996), in support its decision, but the court in that case did not address the effect of reexamination proceedings.

In GAF, the plaintiff brought suit seeking a declaratory judgment that it had not infringed the defendant's patent and that the patent was invalid. Id. at 480. At the time the plaintiff filed suit, the defendant's patent had not yet issued, but the defendant had received a notice of allowance and had paid the issue fee. Additionally, the defendant had sent a "cease and desist" letter to the plaintiff, threatening suit if the plaintiff did not cease infringement of its forthcoming patent. Id. The court of appeals concluded that there was no justiciable case or controversy, even though the patent issued shortly after the plaintiff filed suit, because the complaint "alleged a dispute over the validity and infringement of a possible *future* patent not then in existence." Id. at 482 (emphasis in original).

In contrast to the situation in GAF, plaintiff owns a patent that the court must presume is valid, unless and until defendants prove that it is not by clear and convincing evidence. 35 U.S.C. § 282; In re Swanson, 540 F.3d 1368, 1377 (Fed. Cir. 2008). A reexamination proceeding alone does not invalidate plaintiff's patent and the patent office's tentative rejection or affirmation of certain claims has no effect on this court's jurisdiction. As the Court of Appeals for the Federal Circuit has explained, although a court has discretion to stay an infringement case during reexamination proceedings, it is not required to do so. Viskase Corp. v. American National Can Co., 261 F.3d 1316, 1328 (Fed. Cir. 2001); Ethicon, Inc. v. Quigg, 849 F.2d 1422, 1426-27 (Fed. Cir. 1988). The fact that courts may proceed with infringement cases simultaneously with reexamination proceedings establishes that patents subject to reexamination remain enforceable during such proceedings. Several district courts have reached a similar conclusion. See, e.g., Sorenson v. Fein Power Tools, 2009 WL 3157487, \*2 (S.D. Cal. Sept. 28, 2009) (denying motion to dismiss for lack of

subject matter jurisdiction in case in which asserted patent claims were subject of reexamination proceeding); Anchor Wall Systems, Inc. v. Rockwood Retaining Walls, Inc., 2007 WL 3237622, \*3 (D. Minn. Oct. 30, 2007) (holding that amendments to claims during reexamination proceeding pending simultaneously with lawsuit did not deprive court of subject matter jurisdiction); Sabert Corp. v. Waddington North America, Inc., 2007 WL 2705157, \*4 (D.N.J. Sept. 14, 2007) (rejecting argument that reexamination proceeding affects existence of case or controversy); 3M Co. v. Kinik Co., 2004 WL 1328268, \*6 (D. Minn. June 15, 2004) (rejecting argument that reexamination proceeding divests court of subject matter jurisdiction).

In sum, because I must presume the '797 patent is valid and enforceable, plaintiff's infringement contentions are not "hypothetical" and a justiciable controversy exists. Accordingly, I will deny defendants' motion to dismiss for lack of subject matter jurisdiction.

#### B. Motion to Transfer

Defendants have moved in the alternative to sever plaintiff's contributory infringement claims against Ascedia and transfer the claims against Apple to the Northern District of California under 28 U.S.C. § 1404. Plaintiff opposes transfer, stating that he chose Madison because it is convenient, safe and centrally located.

The problem for plaintiff is that the only connection any party in this lawsuit has to the Western District of Wisconsin is defendant Ascedia's Verona office, and plaintiff has not even pleaded sufficient facts to state a claim against Ascedia. Plaintiff states that he is suing Ascedia for contributory infringement. However, contributory infringement applies to "cases



in which a party sells a particular component that is known to be intended for an infringing use and is useful only for infringement.” PharmaStem Therapeutics, Inc. v. ViaCell, Inc., 491 F.3d 1342, 1358 (Fed. Cir. 2007). See also Preemption Devices, Inc. v. Minnesota Mining & Manufacturing Co., 803 F.2d 1170, 1174 (Fed. Cir. 1986) (“[O]ne must show that an alleged contributory infringer knew that the combination for which his components were especially made was both patented and infringing.”). Thus, to plead contributory infringement under 35 U.S.C. § 271(c), a patent owner must allege facts from which it can be plausibly inferred that (1) there is direct infringement; (2) the alleged contributory infringer had knowledge of the patent; (3) the component, material or apparatus supplied by the alleged contributory infringer has no substantial noninfringing uses; and (4) the component, material, or apparatus is a material part of the invention. Fujitsu Ltd. v. Netgear Inc., 620 F.3d 1321, 1326 (Fed. Cir. 2010) (citing 35 U.S.C. § 271(c)).

Plaintiff’s allegations do not come close to satisfying these pleading requirements. His only allegations related to defendant Ascedia are that Ascedia developed application programs and contracted with Apple to “permit[] Apple to offer for sale, sell and license [the] application programs, to users of Apple’s products, by using Digital Rights Management (DRM) software and methods covered under the claims of the ‘797 patent in App Store, therefore infringing the ‘797 patent contributorily.” Plt.’s Cpt., dkt. #1, ¶ 36. These allegations do not permit an inference that Ascedia was aware of the ‘797 patent or knew that use of its application programs with Apple’s products would infringe plaintiff’s patent. Additionally, plaintiff’s allegations do not suggest that Ascedia’s programs are a material component of Apple’s allegedly infringing digital rights management software or that

Ascedia's programs have no substantial noninfringing uses.

Because plaintiff has failed to state a claim against defendant Ascedia, I am dismissing his claim for contributory infringement. When district courts dismiss a complaint for failing to state a claim, the general rule is to allow the plaintiff to file an amended complaint in an attempt to fix the deficiencies. Foster v. DeLuca, 545 F.3d 582, 584 (7th Cir. 2008). In this case, it seems highly unlikely that plaintiff can save his claim with additional allegations, but I cannot say that it would be impossible for him to do so. Accordingly, I will dismiss the claim against Ascedia without prejudice to plaintiff's refiling a corrected version.

This leaves plaintiff's claim of direct infringement against defendant Apple. It makes little sense to keep plaintiff's claims against Apple in this court in reliance on the remote possibility that plaintiff may be able to revive his claim against defendant Ascedia. It is clear that Ascedia is merely a peripheral defendant to plaintiff's claims against Apple, the developer and owner of the accused technology. Ascedia is merely one of thousands of companies that develops apps according to Apple's specifications. As other courts in this circuit have noted, the presence of "'peripheral' defendants that have been selected . . . to establish proper venue" should not prevent a court from transferring a case that otherwise satisfies the requirements of § 1404. Spread Spectrum Screening LLC v. Eastman Kodak Co., 2010 WL 3516106, \*2 (N.D. Ill. Sept. 1, 2010); Ambrose v. Steelcase, Inc., 2002 WL 1447871, \*6-7 (N.D. Ill. July 3, 2002); Burroughs Corp. v. Newark Electronics Corp., 317 F. Supp. 191, 193 (N.D. Ill. 1970). This principle applies with greater force in this case, in which I am dismissing the peripheral defendant for plaintiff's failure to state a claim against it.

There is no genuine dispute whether plaintiff's claims against defendant Apple should be transferred to the Northern District of California under § 1404. Under that statute, a district court "may transfer any civil action to any other district or division where it might have been brought" if transfer is "[f]or the convenience of the parties and witnesses [and] in the interest of justice." 28 U.S.C. § 1404(a). With respect to the convenience evaluation, courts generally consider the availability of and access to witnesses; each party's access to and distance from resources in each forum; the location of material events; and the relative ease of access to sources of proof. Research Automation, Inc. v. SchraderBridgeport International, Inc., 626 F.3d 973, 978 (7th Cir. 2010). The "interests of justice" element considers docket congestion and likely speed to trial in the transferor and potential transferee forums; each court's relative familiarity with the relevant law; and the relationship of each community to the controversy. Id.

Neither plaintiff nor Apple is located in Wisconsin and no potential witnesses or sources of evidence are located here. Plaintiff resides in Hong Kong and has no apparent connection to this forum. It is true that as a large corporation, Apple is capable of litigating cases in Wisconsin and relevant employees and documents could be made available here. However, Apple's headquarters are in the Northern District of California, the accused technology was developed there and most of Apple's documentary evidence and witnesses are located there. Thus, "the relative ease" of litigation favors transfer to California.

Moreover, plaintiff and Apple already have a pending suit in the Northern District of California regarding the '797 patent and Apple's digital rights management technology. Although that case concerns different accused products, there is a possibility that the parties

could coordinate discovery and reduce the travel requirements and duplicative testimony of witnesses. Additionally, the possibility of consolidation with the related case, even if just for certain aspects such as claim construction, promotes the interests of justice by reducing the potential for duplicative litigation or inconsistent rulings. Coffey v. Van Dorn Iron Works, 796 F.2d 217, 219-20 (7th Cir. 1986) (interest of justice factor includes question whether transfer would facilitate consolidation of related cases). Finally, I disagree that plaintiff would be unfairly prejudiced by a transfer simply because his case against Apple in California is presently stayed. According to plaintiff, the reexamination proceeding will conclude shortly and he will likely need to file an amended complaint against Apple reflecting any changes made during reexamination. Thus, although it is possible the district court in California will choose to stay this case as well, the stay would not unfairly prejudice plaintiff and may be serve judicial economy. Accordingly, I conclude that transferring plaintiff's claims against Apple would be convenient to the parties and witnesses and would promote the interests of justice.

## ORDER

IT IS ORDERED that

1. Plaintiff Ho Keung Tse's motions for entry of default, dkt. #15, for default judgment, dkt. #20, and corrected motion for leave to file an amended motion to enter default, dkt. #25, are DENIED.

2. Defendant Ascedia, Inc.'s motion to join defendant Apple Inc.'s motion to dismiss or transfer, dkt. #9, is GRANTED.

3. Plaintiff's claim against defendant Ascedia, Inc. for contributory infringement is DISMISSED without prejudice for failure to state a claim upon which relief may be granted. Plaintiff may have until May 30, 2012, to file an amended complaint against Ascedia. If plaintiff does not respond by that date, the clerk of court is directed to enter judgment in favor of defendant Ascedia, Inc.

4. Defendant Apple Inc.'s motion to dismiss or transfer, dkt. #5, is GRANTED IN PART and DENIED IN PART. Apple's motion to dismiss for lack of subject matter jurisdiction is DENIED. The motion to transfer plaintiff's claims against Apple to the Northern District of California is GRANTED.

Entered this 17th day of May, 2012.

BY THE COURT:  
/s/  
BARBARA B. CRABB  
District Judge